Agriculture and Agri-Food Canada | Agriculture et Agroalimentaire Canada

AGRICULTURE AND AGRI-FOOD CANADA

Quarterly Financial Report
For the quarter ended September 30, 2013

Canada

AGRICULTURE AND AGRI-FOOD CANADA

Statement outlining results, risks and significant changes in operations, personnel and programs

Introduction

Agriculture and Agri-Food Canada's Quarterly Financial Report (QFR) should be read in conjunction with the Main Estimates for the current year, Supplementary Estimates (A) as well as Canada's Economic Action Plan 2013 (Budget 2013). This report has been prepared by management as required by section 65.1 of the ***Financial Administration Act*** and in the form and manner prescribed by the Treasury Board. As such, it also has not been subject to an external audit or review.

Detailed information on Agriculture and Agri-Food Canada (AAFC)'s program activities can be found in the Report on Plans and Priorities.

Basis of Presentation

This quarterly report has been prepared by management using an expenditure basis of accounting. The accompanying Statement of Authorities includes the Department's spending authorities granted by Parliament and those used by the Department consistent with the Main Estimates for the 2013-2014 fiscal year. This quarterly report has been prepared using a special purpose financial reporting framework designed to meet financial information needs with respect to the use of spending authorities.

The authority of Parliament is required before monies can be spent by the Government. Approvals are given in the form of annually approved limits through appropriation acts or through legislation in the form of statutory spending authority for specific purposes.

As part of the Parliamentary business of supply, the Main Estimates must be tabled in Parliament on or before March 1 preceding the new fiscal year. Budget 2012 was tabled in Parliament on March 29, after the tabling of the Main Estimates on February 28, 2012. As a result the measures announced in the Budget 2012 could not be reflected in the 2012-13 Main Estimates.

In fiscal year 2012-2013, frozen allotments were established by Treasury Board authority in departmental votes to prohibit the spending of funds already identified as savings measures in

Budget 2012. In 2013-2014, the changes to departmental authorities linked to Budget 2012 were reflected in the 2013-2014 Main Estimates tabled in Parliament.

The Department uses the full accrual method of accounting to prepare and present its annual departmental financial statements that are part of the departmental performance reporting process. However, the spending authorities voted by Parliament remain on an expenditure basis.

Highlights of fiscal quarter and fiscal year to date (YTD) results

Authorities

April 1, 2013 marked the beginning of *Growing Forward 2* (GF2), the new five year agricultural and agri-food policy framework. *GF2* intends to achieve a profitable, sustainable, competitive and innovative agriculture, agri-food and agri-products industry.

Additionally, AAFC is undergoing transformational change to ensure we are well positioned to continue to deliver excellence in policy development and advice, program delivery and scientific expertise to Canada's agricultural sector.

At the end of the second quarter of 2013-2014, AAFC had total funding available for use of $2,467.7 million as detailed in Table 1. This amount includes the 2013-2014 Main Estimates, Supplementary Estimates (A), and $5.9 million related to proceeds collected from the sale of Crown assets, but does not reflect measures announced in Budget 2013. The decrease of $151.9 million compared to AAFC's total authorities at the same time in fiscal year 2012-2013 is mainly due to reduced budgetary statutory authorities and Vote 1 operating authorities.

Vote 1 Net Operating authorities as at September 30, 2013 totalled $639.6 million, a decrease of $58.0 million from the September 30, 2012 amount of $697.6 million. This reduction is primarily due to the winding down of the Agricultural Flexibility Program in 2013-2014 and the ending of the Agricultural Innovation Program in 2012-2013, as well as the timing of the release of the Operating Budget Carry Forward which took place in the second quarter of 2012-2013 but has not yet occurred for 2013-2014.

Vote 5 Capital authorities at the end of the second quarter of 2013-2014 totalled $27.9 million, a decrease of $4.2 million compared to the same quarter in 2012-2013. This is in large part due to the timing of the release of the Capital Budget Carry Forward which occurred in the second quarter of 2012-2013 but has not yet occurred for 2013-2014.

Vote 10 Grants and Contributions authority available for use as of September 30, 2013 of $446.9 million reflects a net increase of $20.8 million from $426.1 million at the same time in 2012-2013. There were increases due to the Canadian Wheat Board's Transition Costs Program, as well as the new *Growing Forward 2* policy framework which represents a 50% increase for

federal, provincial and territorial cost-shared programming from the previous *Growing Forward* framework. The large increases in these programs offset smaller reductions in funding as a result of programs which have ended, including the Specified Risk Material Innovation Program, the Agricultural Innovation Program and the ecoAgriculture Biofuels Capital Initiative, and a decrease of funding in the AgriFlexibility Program which is now in its final year.

Budgetary Statutory authorities available as at September 30, 2013, were $1,353.3 million, a decrease of $110.5 million from the September 30, 2012 amount of $1,463.8 million. This decrease is a result of a shift in Business Risk Management (BRM) programming which continues to ensure that farmers are protected against severe market volatility and disasters, while allowing governments to direct resources towards proactive investments in innovation and market development. This, in combination with higher commodity prices driven by increasing grain prices, has resulted in an overall reduction of the forecast requirement for statutory grants and contributions under BRM programming.

Table 1: Authorities Available for Use (In thousands of dollars) (1)

Authorities	2013-14	2012-13	Variances	%
Vote 1 - Net Operating expenditures	639,591	697,611	(58,020)	(8%)
Vote 5 - Capital expenditures	27,872	32,049	(4,177)	(13%)
Vote 10 - Grants and contributions	446,925	426,075	20,850	5%
Budgetary statutory authorities	1,353,343	1,463,851	(110,508)	(8%)
TOTAL AUTHORITIES	**2,467,731**	**2,619,586**	**(151,855)**	**(6%)**

Note:
(1) Totals may not add due to rounding.

As detailed in Table 2, at the end of the second quarter of 2013-2014, the Department had spent $645.4 million (26% of the total funding available for use), compared to $525.4 million for the same period in fiscal year 2012-2013 (20% of the budget). The net increase of $120.0 million (23%) is primarily related to the timing for recognition of Transfer Payments under the statutory AgriInvest Program as a result of changes to the accounting standard for Transfer Payments.

Spending

Vote 1 Net Operating expenditures at the end of the second quarter were $299.5 million or 47% of the total available for use of $639.6 million, which are $2.3 million higher than the same period last fiscal year ($297.2 million, 43%). The small increase in net expenditures is primarily a result of costs associated with severance liquidation payments, which are recoverable from Treasury Board Secretariat.

Vote 5 Capital expenditures at the end of the second quarter were $5.1 million or 18% of the total available for use of $27.9 million. This is not significantly different from the same period last fiscal year ($6.1 million or 19% of the budget of $32.0 million).

Vote 10 Grants and Contributions expenditures at the end of the second quarter of 2013-2014 were $50.1 million or 11% of the total available for use of $446.9 million which is down from the previous year's spending of $69.4 million or 16% of the total available for use of $426.1 million. This is in part due to the sunsetting of some programs. Previous years' Vote 10 expenditures for the second quarter represented 13% of the Vote 10 authorities in 2011-2012, and 11% in 2010-2011. Historically, much of the Department's Grants and Contributions expenditures are recorded close to year-end when provinces make their claims based on actual expenditures.

Budgetary Statutory Authorities expenditures at the end of the second quarter of 2013-2014 were $290.8 million compared to $152.7 million for the same period of the previous year. The $138.1 million increase in spending is mainly related to an increase in expenditures recorded under the AgriInvest Program in 2013-2014 which is due to a change in the timing for recognition of expenditures under this program following the adoption of the new Public Sector Accounting Standard 3410 for Transfer Payments.

Table 2: Expenditures (In thousands of dollars) (1)

Expenditures	2013-14	2012-13	Variances	%
Vote 1 - Net Operating expenditures	299,504	297,231	2,273	1%
Vote 5 - Capital expenditures	5,067	6,081	(1,014)	(17%)
Vote 10 - Grants and contributions	50,085	69,396	(19,311)	(28%)
Budgetary statutory authorities	290,765	152,666	138,099	90%
Total Expenditures	**645,421**	**525,374**	**120,047**	**23%**

Note:
(1) Totals may not add due to rounding.

Table 3 presents Budgetary Expenditures by Standard Object. The main variance in expenditures between 2013-2014 and 2012-2013 by standard object is in Transfer Payments, with an increase of $118.9 million or 65%, of which the majority is related to the statutory expenditure increase noted above for AgriInvest. For personnel, the increase of $6.2 million is primarily a result of costs associated with severance liquidation payments, which are recoverable from Treasury Board Secretariat. For the other standard objects, variances from

Quarter 2 of 2012-13 reflect timing of payments rather than significant changes in spending patterns.

AAFC has total Revenue Spending authority of up to $66.3 million for 2013-2014. The revenue is generated from collaborative research agreements between AAFC and third parties, the grazing and breeding activities of the Community Pastures Program, the administration of the AgriStability Program, as well as recoveries for costs related to Internal Support Services provided to other departments. The Department has generated $20.8 million of revenues up to the end of the second quarter of 2013-2014 compared to $21.4 million for the same period last year.

Table 3: Budgetary Expenditures by Standard Object (In thousands of dollars) (1)

Expenditures	2013-14	2012-13	Variances	%
Personnel	289,056	282,830	6,226	2%
Transportation and communications	5,543	6,548	(1,005)	(15%)
Information	1,593	1,815	(222)	(12%)
Professional and special services	35,727	37,763	(2,036)	(5%)
Rentals	1,280	1,505	(225)	(15%)
Repairs and maintenance	5,518	7,635	(2,117)	(28%)
Utilities, materials and supplies	12,567	14,430	(1,863)	(13%)
Acquisition of land, buildings and works	1,342	800	542	68%
Acquisition of machinery and equipment	6,216	4,922	1,294	26%
Transfer payments	302,932	184,074	118,858	65%
Other subsidies and payments	4,491	4,447	44	1%
Total Gross Budgetary Expenditures	**666,265**	**546,769**	**119,496**	**22%**
Less: Revenues netted against expenditures	20,844	21,395	(551)	(3%)
Total Net Budgetary Expenditures	**645,421**	**525,374**	**120,047**	**23%**

Note:
(1) Totals may not add due to rounding.

Risks and Uncertainties

AAFC is adjusting its operations to align with actual funding levels going forward. There are several factors that are impacting the level of resources available to run the operations of the Department. These include the winding down of the Agricultural Flexibility Program, and the ending of the Agricultural Innovation Program noted previously, as well as an emphasis in *Growing Forward 2* (GF2) on funding the industry to adapt, innovate and compete more effectively in domestic and global markets.

Significant changes in relation to operations, personnel and programs

Operations
In addition to Budget 2012 Implementation activities discussed below, in May 2013, AAFC announced additional changes which continued its transformation agenda and identified efficiencies to allow it to operate within a reduced budget envelope and with fewer full-time equivalents (FTEs) in future years.

In line with the transformation initiatives already underway, those changes include: adjusting the way we deliver internal services to find further efficiencies; reducing management layers and streamlining functions within the organization; focusing what we do on the global stage to generate market growth; and consolidating expertise to focus our science and research on the highest priorities for the sector's success.

Personnel
Mr. Maxime Bernier has been named the new Minister of State (Small Business and Tourism, and Agriculture), effective on July 15, 2013.

Budget 2012 Implementation

This section provides an overview of the savings measures announced in Budget 2012 being implemented to refocus government and programs; make it easier for Canadians and business to deal with their government; and, modernize and reduce the back office.

AAFC will achieve annual savings of $253.2[1] million by fiscal year 2014-2015 by realigning its business in the following ways:

[1] The achieved annual savings of $253.2 million by 2014-2015 is the total savings of $252.8 million for AAFC, as well as $0.1 million for the Canada Agriculture Review Tribunal (CART) and $0.3 million for Farm Products Council of Canada (FPCC).

- Advancing our service excellence agenda, by consolidating all programs into a single programs branch.
- Establishing a new science and technology branch by putting together our research, science and environmental efforts, to better facilitate innovation, technology transfer and adoption.
- Achieving greater policy integration across the Department to improve our advice and analysis.
- Aligning programs and services to meet priorities.
- Increasing shared services by consolidating some corporate services with the Canadian Food Inspection Agency.
- Continuing to look at ways with our provincial and territorial partners to improve farm income programming.

This approach builds on steps already taken by AAFC to help position AAFC to meet its future goals and priorities while contributing to the government's return to a balanced budget.

In 2012-2013, the first year of Budget 2012 implementation, AAFC achieved its targeted savings of approximately $15.0 million by focussing on reducing program costs. In 2013-2014, AAFC will achieve savings of $158.5 million by continuing to organize its work to enable more effective and efficient program and service delivery. FTE reduction targets were established over a two-year period and AAFC is well placed to meet the target of 617 FTEs established for 2014-2015. Savings are being phased in to achieve the full annual savings of $253.2 million by 2014-2015. The continued impacts on departmental budgets and expenditures resulting from Budget 2012 will be reflected in subsequent quarterly reports.

Approval by Senior Officials
Approved by:

Suzanne Vinet, Deputy Head

Pierre Corriveau, Chief Financial Officer

Ottawa, Canada

November 18, 2013

AGRICULTURE AND AGRI-FOOD CANADA
Statement of Authorities *(unaudited)*
For the quarter ended September 30, 2013
(In thousands of dollars)

	Fiscal year 2013-2014 [1]			Fiscal year 2012-2013 [1]		
	Total available for use for the year ending March 31, 2014 [2]	Used during the quarter ended September 30, 2013	Year to date used at quarter-end	Total available for use for the year ended March 31, 2013 [2]	Used during the quarter ended September 30, 2012	Year to date used at quarter-end
Vote 1 - Net Operating expenditures	$ 639,591	$ 158,712	$ 299,504	$ 697,611	$ 160,008	$ 297,231
Vote 5 - Capital expenditures	27,872	3,636	5,067	32,049	4,444	6,081
Vote 10 - Grants and contributions	446,925	30,330	50,085	426,075	52,237	69,396
Budgetary statutory authorities [3]	1,353,343	222,567	290,765	1,463,851	104,058	152,666
Total Budgetary authorities	2,467,731	415,245	645,421	2,619,586	320,747	525,374
Total authorities	$ 2,467,731	$ 415,245	$ 645,421	$ 2,619,586	$ 320,747	$ 525,374

Notes:

(1) Totals may not add due to rounding.
(2) Includes only Authorities available for use and granted by Parliament at quarter-end.
(3) Details on Budgetary statutory authorities are included in Appendix A.

AGRICULTURE AND AGRI-FOOD CANADA

Departmental budgetary expenditures by Standard Object *(unaudited)*

For the quarter ended September 30, 2013

(In thousands of dollars)

	Fiscal year 2013-2014 (1)			Fiscal year 2012-2013 (1)		
	Planned expenditures for the year ending March 31, 2014	Expended during the quarter ended September 30 , 2013	Year to date used at quarter-end	Planned expenditures for the year ending March 31, 2013	Expended during the quarter ended September 30, 2012	Year to date used at quarter-end
Expenditures:						
Personnel	$ 552,291	$ 154,179	$ 289,056	$ 543,645	$ 147,245	$ 282,830
Transportation and communications	22,835	3,288	5,543	36,084	3,648	6,548
Information	7,799	935	1,593	7,169	1,068	1,815
Professional and special services	117,498	21,242	35,727	150,799	23,185	37,763
Rentals	4,581	894	1,280	5,690	854	1,505
Repair and maintenance	25,910	3,227	5,518	36,707	2,900	7,635
Utilities, materials and supplies	50,161	6,842	12,567	54,481	7,709	14,430
Acquisition of land, buildings and works	4,646	582	1,342	5,174	661	800
Acquisition of machinery and equipment	23,226	2,644	6,216	26,904	3,233	4,922
Transfer payments	1,712,871	233,219	302,932	1,809,991	136,617	184,074
Other subsidies and payments	12,184	2,504	4,491	13,182	3,849	4,447
Total gross budgetary expenditures	2,534,002	429,556	666,265	2,689,827	330,969	546,769
Less Revenues netted against expenditures:						
Vote-netted revenues	66,271	14,311	20,844	70,241	10,222	21,395
Total Revenues netted against expenditures	66,271	14,311	20,844	70,241	10,222	21,395
Total net budgetary expenditures	$ 2,467,731	$ 415,245	$ 645,421	$ 2,619,586	$ 320,747	$ 525,374

Note:

(1) Totals may not add due to rounding.

AGRICULTURE AND AGRI-FOOD CANADA

Budgetary Statutory Authorities Breakdown *(unaudited)*

For the quarter ended September 30, 2013

(*In thousands of dollars*)

APPENDIX A

	Fiscal year 2013-2014 [1]			Fiscal year 2012-2013 [1]		
	Planned expenditures for the year ending March 31, 2014	Expended during the quarter ended September 30, 2013	Year to date used at quarter-end	Planned expenditures for the year ending March 31, 2013	Expended during the quarter ended September 30, 2012	Year to date used at quarter-end
Contributions to employee benefit plans	$ 81,836	$ 19,159	$ 38,317	$ 75,462	$ 18,866	$ 37,732
Minister of Agriculture and Agri-Food and Minister for the Canadian Wheat Board - Salary and motor car allowance	79	19	39	78	19	38
Contribution payments for the AgriStability program	219,300	160	(8,459)	500,000	1,017	(5,952)
Contribution payments for the AgriInsurance program	640,800	99,346	105,559	410,000	64,240	83,740
Grant payments for the AgriInvest program	126,200	77,797	117,201	131,400	(663)	(1,092)
Payments in connection with the *Agricultural Marketing Programs Act* (S.C., 1997, c. C-34)	94,000	22,455	36,350	94,000	14,242	31,460
Grant payments for the AgriStability program	41,000	(1,468)	(3,679)	90,000	449	1,737
Contribution payments for the AgriInvest program	17,500	4,748	6,360	29,000	215	215
Loan guarantees under the *Canadian Agricultural Loans Act*	13,111	(12)	(19)	13,111	65	164
Canadian Cattlemen's Association Legacy Fund	2,500	-	-	5,000	-	-

AGRICULTURE AND AGRI-FOOD CANADA

Budgetary Statutory Authorities Breakdown *(unaudited)*

For the quarter ended September 30, 2013

(In thousands of dollars)

APPENDIX A

	Fiscal year 2013-2014 [1]			Fiscal year 2012-2013 [1]		
	Planned expenditures for the year ending March 31, 2014	Expended during the quarter ended September 30, 2013	Year to date used at quarter-end	Planned expenditures for the year ending March 31, 2013	Expended during the quarter ended September 30, 2012	Year to date used at quarter-end
Contributions in support of the Assistance to the Pork Industry Initiative	635	-	-	405	-	-
Grants to agencies established under the *Farm Products Agencies Act* (R.S.C., 1985, c. F-4)	100	-	-	200	-	-
Contribution payments for the Agricultural Disaster Relief Program (ADRP)/AgriRecovery	110,800	93	139	110,800	5,201	5,185
Grant payments for the Agricultural Disaster Relief Program (ADRP)/AgriRecovery	-	13	13	-	-	-
Canadian Pari-Mutuel Agency Revolving Fund	(421)	(432)	(1,647)	(48)	(170)	(1,268)
Spending of Amounts Equivalent to Proceeds from Disposal of Surplus Moveable Crown Assets	5,904	931	1,204	4,444	957	1,442
Grant payments for the AgriInvest Kickstart program	-	-	(3)	-	(1)	(10)
Contribution payments for the AgriInvest Kickstart program	-	-	-	-	-	(10)
Refunds of amounts credited to revenues in previous years	-	-	4	-	7	45
Contributions for agricultural risk management - Enhanced Spring Credit Advance program Business Risk Management	-	(143)	(340)	-	(307)	(520)
Class grant payments for the Transitional Industry Support program	-	(5)	(6)	-	(28)	(36)

AGRICULTURE AND AGRI-FOOD CANADA

Budgetary Statutory Authorities Breakdown *(unaudited)*

For the quarter ended September 30, 2013

(*In thousands of dollars*)

APPENDIX A

	Fiscal year 2013-2014 [1]			Fiscal year 2012-2013 [1]		
	Planned expenditures for the year ending March 31, 2014	Expended during the quarter ended September 30, 2013	Year to date used at quarter-end	Planned expenditures for the year ending March 31, 2013	Expended during the quarter ended September 30, 2012	Year to date used at quarter-end
Class grant payments for the Farm Income program	-	(1)	(3)	-	(8)	(9)
Grant payments for the Canadian Agricultural Income Stabilization program Inventory Transition Initiative	-	(39)	(98)	-	(38)	(139)
Contribution payments for the Canadian Agricultural Income Stabilization program Inventory Transition Initiative	-	(49)	(156)	-	-	(26)
Contributions in support of the Grain and Oilseed Payment program	-	-	-	-	-	(15)
Grants in support of the Grain and Oilseed Payment program	-	(4)	(10)	-	(3)	(13)
Grants in support of the Cost of Production Benefit	-	(1)	(1)	-	(2)	(2)
Budgetary statutory authorities	$ 1,353,343	$ 222,567	$ 290,765	$ 1,463,851	$ 104,058	$ 152,666

Note:

(1) Totals may not add due to rounding.